# SECTOR PROFILE

# MEDICAL SECTOR IN CUBA

# DECEMBER 1991

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# CUBA: MEDICAL SECTOR PROFILE

December, 1991

## I. Overview

Cuba has traditionally identified the health care sector within the three priorities of the country's economic and social development. The success of this sector translates into an increased life expectancy of slightly over 74 years while the infant mortality rate is approximately 11 per one thousand live births, both at a level comparable to many industrialized nations.

The above notwithstanding, imports for health care sector have been reduced as a result of the worsening economic situation and Cuba's diminished import capability. This situation has particularly affected the importation of medical equipment. Instead, import priority has been accorded to raw materials for the pharmaceutical industry, selected finished pharmaceuticals and raw materials and other requirements destined for export oriented biotechnology products manufacturing.

## II. Import Procedures and Policy

### a) Import Procedures

Since 1960, Cuba has always conducted its foreign acquisition programs via a series of state trading organizations, each of which has a specific import mandate. Until recently, Medicuba has been the sole state trading organization charged with the responsibility of implementing all of Cuba's medical supplies, hospital equipment and veterinary product acquisitions.

However, as result of the disruption of trade relations between Cuba and the former COMECOM countries and the relative success of the local biotechnology industry, selected research centres and laboratories (such as the

National Centre for Biotechnology and Genetic Engineering and the National Centre of Immunoassay) are now permitted to procure their own requirements and to export their production. This system follows a moderate "market economy approach" in that these organizations are more conscious of quality, cost factors, delivery and profit. This attitude is influenced by the fact that they can retain approximately 45 per cent of the hard currency generated by their exports to re invest in new products, equipment etc., that may be required to upgrade their facilities and/or to import a particular product used in the production of their exportable items.

However, before this decentralizations system is completed, Medicuba will continue to handle the bulk of Cuba's imports required by the health care sector.

Medicuba is organized along four purchasing divisions which are:

- disposable materials
- orthopaedic materials and surgical products
- pharmaceuticals
- medical equipment, including equipment for the pharmaceutical industry.

b) Import and Procurement Policy

Medicuba maintains trade relations with a large number of suppliers around the world. Recent political and economic reforms in Eastern Europe have created a gap in Medicuba's sourcing system which prompted its management to reorient their import programs. This situation has opened up additional export opportunities for western suppliers in Cuba.

In general terms, Medicuba's annual planned requirements are estimated at US $200-400 million dollars, which together with additional US 100-200 million dollars required to equip new hospitals, make the Cuban health care sector an attractive export market.

In practice, these import requirements are unlikely to be met given the hard currency cash liquidity difficulties. In our opinion, anywhere between 40 to 50 per cent of those requirements are actually imported every year with the support of 360-day credit facility offered by the seller. As an alternative to by-pass the lack of extended payment terms, Medicuba occasionally receives special budget allocations from the Central Government to import on a confirmed irrevocable letter of credit basis those products essential to the health care sector for which credit facilities are not readily available.

Given the still centrally planned state controlled nature of the Cuban economy, Medicuba prepares its annual import programs based on the requests its receives from Ensume, a government agency that collects the requirements from the various hospitals and medical institutions in the country. Ensume is also responsible for the distribution of all medical supplies and hospital equipment.

Upon receipt of the consolidated list of requirements, Medicuba prepares the requests for quotation to their traditional suppliers. These requests for quotation are normally issued during the last quarter of each year to cover the planned requirements for the first half of the following year, while the buying program for the remaining part of the following year is implemented during the second quarter of the same year. However, the normal practice over the last two year has been to implement a specific buying programs as "funds and/or financing become available" rather than wait until the appropriate buying time comes.

In general, the criteria for making sales in Cuba is competitive pricing, good product quality and delivery terms, as well as availability of a credit facility of minimum 360 days for disposable materials, finished pharmaceuticals, raw materials and small medical equipment. In the case of the purchase of major medical equipment, a three to five year extended payment term is required.

## III. Medicuba's Sourcing Practice.

Medicuba's main suppliers of finished pharmaceuticals and raw materials are located in China, Switzerland, Austria and the United Kingdom. Siemens of Germany, Phillips of Holland and Toshiba of Japan are Medicuba's main hospital equipment suppliers. These companies have been able to capture approximately 50% of Cuba's hospital equipment market (total size estimated at US $60 million dollars) by implementing a very aggressive marketing and after sale service policy. Their success has been achieved through periodic visits to Cuba and the offering of medium/long term financing to Medicuba. Canada enjoys a segment of the market thanks to yearly sales of cobalt generators and radiotherapy equipment.

## IV. Trade-Related Factors

All medical and hospital equipment entering Cuba have to be previously tested by the potential users, while finished pharmaceuticals additionally must be registered with the National Pharmaceutical Formulary. Registration and testing procedures are coordinated by the foreign supplier through Medicuba. The results of the evaluations will be collected from the users by Medicuba to be passed on to the foreign supplier.

A successful evaluation of a supplier's products or equipment implies that its name is immediately recorded in Medicuba's list of potential suppliers. This facilitates the establishment of potential business relations as the supplier may be requested for quotation whenever Medicuba is in the market for a particular product or piece of equipment.

Another characteristic of the Cuban health care sector is its lack of a domestic fine chemicals industry. Consequently, Cuba imports approximately US $70 million a year from Western European countries. Fine chemicals are processed in Cuba, permitting domestic production of approximately 80% of Cuba's pharmaceutical needs.

Cuba has also established a fairly sophisticated biotechnology based pharmaceutical industry, whose main success has been the production of interferon, human skin accelerated growth factors and AIDS diagnostic kits.

Cuba has also expanded its industrial base for the health care sector with the objective of reducing its dependency on foreign suppliers. Consequently, two hospital furniture manufacturing plants were opened in mid 1990, located in Havana and Santiago de Cuba, while an antibiotic manufacturing facility (built with USSR technology) became operational in Havana in early 1990.

However, the production capabilities of these plants have been severely affected by Cuba's inability to secure raw materials. As a result, and following the trend of other local industries, Cuban officials are actively seeking foreign suppliers interested in entering into joint cooperation agreements. In this type of arrangement, Cubans expect to receive the required materials not available in the country, the improved technical and managerial expertise to ensure an efficient operation of the plants. In return, the foreign investor will receive part of the production for marketing to overseas customers.

## V. Access to Cuban Market by Canadian Companies

Canada's exports of medical products and supplies to Medicuba reached approximately Cdn $0.8 million in 1990. Medicuba, like all Cuban state trading organizations, has always shown a profound interest in purchasing Canadian products and equipment. This attitude is largely attributable to Canada/Cuba geographical proximity, availability of North American technology from Canada and the excellent reputation enjoyed by Canadian companies which are regarded as amongst the most reliable and serious trading partners.

The above notwithstanding, Medicuba's annual buying programs are predominantly oriented towards Western Europe from where credit facilities are more readily available. However, Medicuba officials have repeatedly expressed their willingness to re-direct some of their acquisition programs to Canada provided

that minimum 360-day extended payment terms be made available. They have also announced their intention to buy minimum 5 million dollar worth of medical supplies and laboratory glassware per year from Canada should a line of credit for this amount be in place and solely available to Medicuba.

Medicuba perceives Canada as a natural supplier and considers the following product areas as having the most immediate potential for Canadian purchases:

a) Diagnostic kits and reagents: annual imports US $8 million

b) Finished pharmaceuticals: annual imports US $120 million

c) Veterinary products (vaccines, etc.): annual imports approx. US$ 7-10 million

d) Containers and closures for medical products: annual imports US $5 million

e) Disposable materials for hospitals: annual imports US $1-2 million

f) Surgical instruments and sutures: annual imports US $4 million

g) Medical gases: annual imports US $1-2 million

h) Dental burs: annual imports US $1 million

VI. <u>Constraints Affecting Canada's Export Performance in This Sector</u>

a) Unavailability of credit facility.

b) Strong preference of Medicuba's buyers to buy from Western European countries primarily due to its familiarity with their technology and products.

c) Canadian products have in the past been perceived as more expensive than other foreign suppliers by Medicuba.

## VII. How to Approach the Cuban Marketplace

While cognizant of constraints listed in Section VI above, it should be emphasized that Canadian exporters could still benefit from the sales opportunities available from Medicuba.

Canadian suppliers should find alternatives that will permit them to minimize the initial resistance because the Canadian offer may lack credit facility competitive with their Western European suppliers. A possible solution could be the establishment of a barter trade involving products for which Medicuba has the export mandate: interferons, AIDS test kits and skin growth factors. As well, Canadian firms should ensure their pricing policy to be in line with what the Cuban market is willing to bear.

## VIII. Financial Facilities/Export Insurance Programs Available to Canadian Companies Exporting to Cuba

While there is no Canadian Government credit facility to Cuba, the following alternatives are available to Canadian exporters selling to Cuba:

a) A 30-million Canadian dollar revolving line of credit is available from the National Bank of Canada to the National Bank of Cuba. Canadian exporters may access this facility only after the Cuban Ministry of Foreign Trade has identified the contract as a "priority" and the National Bank of Cuba has issued the corresponding letter of credit payable upon presentation of shipping documents to the National Bank of Canada by the Canadian exporters. As well, the National Bank of Canada's credit facility is subject to the exporter's obtaining an EDC insurance against non-payment risks. The Canadian supplier collects payment on a sight basis.

b) Cuba is off cover by EDC on medium/long term programs. However, EDC is prepared to provide short term insurance coverage to Cuba on the basis of a letter of credit issued by the National Bank of Cuba. However, EDC's short term insurance coverage is limited and dependant upon Cuba's ability to maintain payments to Canadian exporters and to EDC.

## IX. Possibility for Joint Ventures or Cooperative Production

Over the last 10 years, Cuba has implemented an extensive investment program to modernize and upgrade its medical and hospital equipment manufacturing industry. As a result, two hospital furniture and an antibiotics manufacturing plants were opened. Additionally, several biotechnology products processing facilities became operational, most notably in the City of Havana.

With the crumbling of trade relations between Cuba and the former Comecon countries, Cuba's foreign trade infrastructure is suddenly beset by a great deal of uncertainty as to the willingness or ability of these countries, particularly the USSR, to maintain traditional trade ties with Cuba.

As a consequence, long term suppliers of pharmaceutical products and raw materials, medical supplies and laboratory equipment in the USSR, the former GDR, Hungary and Bulgaria have ceased exporting to Cuba.

This situation, coupled with Cuba's limited availability of hard currency, has prompted Cuban planners to look for alternative solutions to procure foreign requirements as well as to avoid the closing down of a large number of industrial facilities.

In the specific case of the medical sector, Cuba is prepared to enter into joint venture agreements and/or cooperative production with foreign partners. The basis of such agreements calls for the provision of raw materials, packaging material suitable for export purposes, improved technological equipment

and more advanced managerial expertise. On the other hand, Cuba is prepared to offer its industrial capacity and its labour, which is relatively well qualified and inexpensive.

Cuba is particularly interested in identifying foreign partners willing to enter into this type of negotiation for the production of biotechnology products, chemical reagents, electronic medical equipment, etc. According to Cuban officials, the foreign company is permitted to repatriate the profit resulting from the business and/or reinvest it whole or in part in another joint venture project in Cuba.

Any potentially interested investor should investigate all aspects of such an agreement closely before making a commitment.

## X. Recommendations

The Post wishes to encourage interested Canadian suppliers to establish close contacts with Medicuba officials and advise them of your export capabilities and readiness to become an established supplier to Medicuba. Your initial approach is interpreted as a sign of good will and often requires serious and repeated subsequent follow-ups. Patience and perseverance are needed when making your first contact with Cuba. These conditions are particularly necessary during the early stages of your dealings, as the product evaluation process for a new supplier can be protracted and frustrating. After the successful evaluation of your products, you should plan a visit to your potential client in Cuba to obtain a better assessment of the market conditions, and to establish a personal rapport with the buyer.

Canadian exporters should seriously consider attending the Health for All Trade Show in Havana. It is a biannual trade fair/exhibition specifically oriented toward the health care sector. Since the Fair always takes place in mid April, Medicuba uses this opportunity to negotiate a substantial number of contracts with the participating companies. The next Health for All Trade Show will take place in April 1993.

Interested Canadian companies are welcome to send their enquiries directly to the Canadian Embassy in Havana.

For any other information related to the Cuban market or to Medicuba, you should also contact the Canadian Embassy, Commercial Division, P.O. Box 500 (HAVAN), Ottawa, Ontario, K1N 8T7; phones: (011-53-7) 33-2516/17/27; telex: 51-1586 (CAN CU); fax: (011-53-7) 33-2044.